



Neo Exchange Inc.

Trading Notice

Date: September 13, 2019

Notice #: 2019-008

Approval of Public Interest Rule Change to NEO's Trading Policies Adding Anonymous Broker Preferencing in NEO-D

In accordance with Schedule 5 to its recognition order, as amended (the "Protocol"), Neo Exchange Inc. ("NEO Exchange") has adopted and the Ontario Securities Commission (the "OSC") has approved a Public Interest Rule Change to the NEO Exchange trading policies (the "Trading Policies"). NEO has also adopted Housekeeping Rule Changes to the Trading Policies. The Public Interest Rule Change was published for comment on June 28, 2019, and one comment letter was received, the summary of which is attached to this notice as Appendix A.

The Public Interest Rule Change was approved by the OSC today and all changes will be effective on October 1, 2019. The OSC Notice can be found [here](#) and the revised Trading Policies will be made available on the NEO Exchange website as from the effective date.

Summary of Changes

Public Interest Rule Change

We are amending the matching logic for dark orders in NEO-D in paragraph 7.04(4)(a) of the Trading Policies to apply broker preferencing to all orders, other than jitney orders.

Housekeeping Rule Changes

We have made the following minor changes in section 5.07(3):

- Separation of the description of the functional attributes of Passive Only (PO) order modifier into the two existing options of PO Cancel and PO Reprice.
- Remove "unintentionally" from the descriptions of Protect and Cancel and Protect and Reprice order modifiers.

We also adopted an associated change to section 8.03:

- Add a reference to "Passive Only Reprice" after "Protect and Reprice".

Should you have any additional questions, please contact NEO Trading Sales.

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APPENDIX A

Summary of Comments

We received one comment letter from Nasdaq Canada. The summary of the comments provided, with NEO responses, is set out below.

Comment	NEO response
<p>We are against the Proposal because it will increase internalization rates while internalization practices are under review by the Canadian Securities Administrators (CSA) and the Investment Industry Regulatory Organization of Canada (IIROC) (together "Canadian Regulators") in response to concerns.¹ Until Canadian Regulators determine their position on existing forms of broker preferencing and other internalization tools, additional marketplace features, which serve to promote these practices, should not be approved. Furthermore, introducing broker preferencing for anonymous dark orders will specifically promote internalization practices that "fly under the radar" by providing the benefits of broker preferencing without requiring any contribution to transparency. Historically, order attribution has been accepted as the trade-off for receiving the benefits of broker preferencing because of the contribution made to pre-trade transparency. Allowing broker preferencing for anonymous dark orders without requiring post-trade attribution removes that trade-off. A negative impact to the markets overall transparency will ensue.</p>	<p>We agree with the commenter that it is important that regulators clarify their position on anonymous broker preferencing.</p> <p>We have made similar arguments as to the down-side of the functionality, and made reference to them in our request for comment. Further, in preparing to launch NEO-D, we had raised questions as to why anonymous broker preferencing in a dark pool had been allowed. The regulators' view was that, without pre-trade transparency, market participants would not know if their orders were jumped, and therefore it should not negatively impact investor confidence (and there would also not be information leakage concerns in respect of orders). At that time, we chose not to incorporate anonymous broker preferencing functionality. We again raised concerns when another marketplace adopted the same functionality.</p>
<p>We recognize that broker prefer for anonymous dark orders already exists as a feature in the market and has been approved by the Ontario Securities Commission ("OSC") for use by two other marketplaces (one with public comment and one without). We also recognize that the same feature has been recently approved for Nasdaq Canada's M-ELO.² Nasdaq Canada encourages the Canadian Regulators to prohibit this feature across marketplaces and would be happy to remove it from M-ELO when a decision is made. The inclusion of broker preferencing for anonymous M-ELO orders was proposed in order to remain competitive with other dark liquidity offerings.</p>	<p>The views expressed by Nasdaq Canada are aligned with previous comments made by NEO, including in the rationale for the proposed functionality. Until the Canadian Regulators decide that anonymous broker preferencing for dark orders is inappropriate, we feel this functionality is required, to remain competitive, but we would also be happy not to implement it so long as existing functionality is suspended.</p>

¹ Joint CSA/IIROC Consultation Paper 23-406 Internalization within the Canadian Equity Market, Part 1 – Introduction.

² https://osc.gov.on.ca/en/Marketplaces_cxc_20190711_noa-midpoint-extended-life-orders.htm